USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 4/10/2005

GAIN Report Number: RP5011

Philippines

Sugar

Annual

2005

Approved by:
David C. Miller
FAS Manila

Prepared by:
Pia Abuel-Ang

Report Highlights:
Philippine raw sugar production is likely to drop over the next two years due primarily to a weak demand for sugar and current low millgate prices. Demand for sugar, particularly by industrial users, has been sluggish partly as a result of the relocation of the manufacturing operations of a few multinational companies to other countries in the region, as well as the growing demand for imported sugar-containing food and beverage products.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Manila [RP1]
[RP]

Executive Summary

Philippine raw sugar production is likely to drop over the next two years due primarily to a weak demand for sugar and low millgate prices. Demand for sugar, particularly by industrial users, has been sluggish as a result of the relocation of the manufacturing operations of a few multinational companies to other countries in the region, as well as the growing demand for imported sugar-containing food and beverage products.

The Philippines is expected to export about 146,000 MT of raw sugar in 2005 to countries other than the United States in an effort to manage the excess sugar supply in the past two years. The Philippine government, through the National Food Authority (NFA), has had to intervene for the second consecutive year by purchasing “reserve” sugar in order to arrest the decline in sugar prices.

Production

Total sugar production in CY 2004/05 is expected to be significantly lower than the record-high sugar output achieved in CY 2003/04. This drop in sugar output is mainly due to decreased sugarcane plantings as cane farmers reportedly shifted from sugarcane to other crops as a result of low millgate prices. Domestic production for CY 2005/06 will likely not surpass the current year’s output of 2.18 MMT.

Also, labor problems that beset two major sugar mills in the Luzon and Negros areas are expected to have a substantial impact on projected total raw sugar output in this current crop year. It is reported that sugar production in Tarlac alone is expected to drop by as much as 86 percent.

Sugar production on a per hectare basis increased in crop year 2003/04 which the Sugar Regulatory Administration (SRA) attributed to the collaborative effort between the government and the private sector. According to the SRA, total raw sugar production for crop year 2003/04 reached 2.34 MMT exceeding the 2.16-2.27 MMT official target set by the Philippine government. Productivity of the last crop year also improved from 61.70 to 66.70 MT/hectare as a result of wide scale adoption of high-yield cane varieties.

Sugarcane is grown in 17 provinces located in eight regions of the country. In the last crop year, the island of Negros accounted for about 55 percent of total sugar production. Luzon produced 16 percent; Mindanao, 20 percent; Panay, 6 percent; and Eastern Visayas, 4 percent.

PRODUCTION PER MILL DISTRICT CY 2003/04		
Mill District	**MT**	**Percent**
Luzon	369,331	16
Negros	1,274,580	55
Panay	132,746	6
Eastern Visayas	92,592	4
Mindanao	469,325	20
Total	2,338,574	100

Source: Sugar Regulatory Administration

Total domestic sugar production comes primarily from the members of four major sugar planter federations and three major miller associations. The total area planted in CY 2003/04 was 396,135 hectares. Producers who belong to these organized federations account for 90 percent of total domestic sugar production. Planters and millers not affiliated with the major federations produce the other 10 percent of total production.

In CY 2003/04, SRA reports that 89.5 percent of the country's sugar production was classified as "B" or domestic sugar for local consumption. Six percent was classified as "A" sugar and allocated as sugar quota for the United States, four percent as "D" world market sugar and 0.50 percent was classified "B-1" and allocated as Food Processors/Exporters sugar.

For CY 2003/04, average mill site price of raw sugar per 50 kg. bag was P888.18 for "A" sugar, P745.88 for "B", P700.00 for "B-1" and P375.20 for "D". The composite price for sugar was P744.41 per 50 kg.

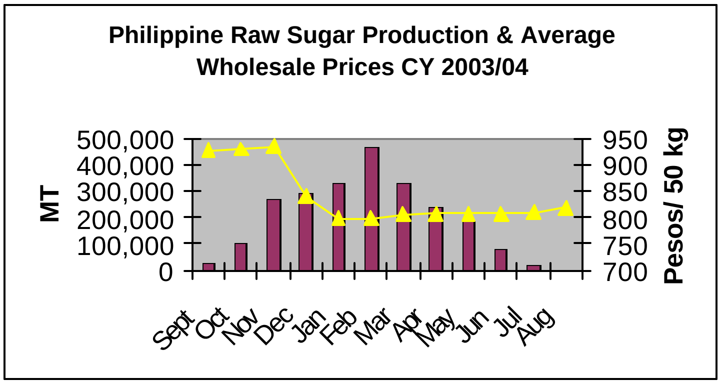
RAW AND REFINED SUGAR PRICES, Crop Year 2003-05				
CY 2003-04	**Raw Sugar**		**Refined Sugar**	
	Wholesale Price (Pesos[1]/per 50 kg. Bag)	Retail Price (Pesos/ per Kg.)	Wholesale Price (Pesos/per 50 kg. Bag)	Retail Price (Pesos/ per Kg.)
September	927.25	22.90	1223.61	27.26
October	928.60	22.91	1241.57	27.21
November	933.80	22.87	1240.64	27.26
December	839.28	22.84	1140.28	27.30
January	797.25	22.84	1145.63	27.30
February	798.78	22.51	1147.88	26.98
March	806.13	22.30	1153.00	26.72
April	806.60	22.29	1154.88	26.66
May	806.75	21.96	1153.75	26.69
June	806.75	22.15	1152.25	26.58
July	808.80	22.01	1153.00	26.49
August	818.50	22.01	1153.05	26.49
Average	839.87	22.47	1171.63	26.91
CY 2004-05				
September	832.00	22.03	1153.65	26.54
October	846.49	22.01	1156.47	26.50
November	814.79	22.04	1168.92	26.58
December	802.00	22.12	1182.33	26.83
January	810.43	21.77	1197.93	26.73
February	856.93	22.06	1228.03	26.64
March	887.06	22.16	1285.87	26.98

Source: Sugar Regulatory Administration

[1] US$1=P54.816 as of April 5, 2005

Philippine sugar production is seasonal with the highest levels being attained during the months of January, February and March. Withdrawals from the mills are fairly stable and consistent throughout the year with slight increases during the months of July and August. The higher demand in the summer months are attributed primarily to the preparation of the food processors and beverage manufacturers for the anticipated increase in demand during the holiday months of November and December.

This situation has a direct impact on the prices of sugar. During the milling season, when the supply is abundant and the inventory level of domestic sugar is high, prices move lower. Similarly, prices start picking up again in the months of May when almost all the mills have finished milling and peak in the months of September and October.



Although there is practically no trade in sugarcane due to the unique "quedan" system in the Philippines (see Marketing section), the price of cane is estimated to be around P1,120/MT[2] .

RAW SUGAR PRODUCTION BY MONTH, AREA PLANTED AND YIELD PER HECTARE (IN MT)				
MONTH	CY 2001/02	CY 2002/03	CY 2003/04	CY 2004/05
September	47,458	31,741	24,270	9,845
October	133,094	114,549	106,583	150,605
November	176,859	190,775	271,463	237,766
December	307,663	350,027	292,687	299,717
January	292,477	325,627	331,065	397,931
February	325,903	358,371	466,258	369,699
March	302,231	410,854	328,510	183,543
April	163,816	190,467	237,683	-
May	98,5774	112,580	185,466	-
June	40,760	67,322	76,380	-
June	618	6,071	18,209	-
August	9,048	3,141	-	-
TOTAL PRODUCTION	1,898,501	2,161,525	2,338,574	1,649,106[3]
TOTAL AREA PLANTED	367.569	379,608	396,135	-
YIELD/HECTARE	103.30	113.88	118.07	-

Source: Sugar Regulatory Administration

[2] Computed using an average wholesale price of P800/50 kg; average industry recovery rate of 2.0 50 kg bags raw sugar/MT of sugarcane; and a 70-30 percent cost-sharing between farmers and millers.
[3] As of March 13, 2005.

In the last five years, raw sugar production increased nearly 50 percent from 1.62 MMT in CY 1999/2000 to 2.34 MMT last year, due to the wide scale adoption of new high-yielding sugarcane varieties. According to SRA, as much as 40 percent of all Philippine sugarcane produced are the new varieties which are being actively promoted and disseminated by the SRA. Working in tandem with SRA, the Philippine Sugar Research Institute (Philsurin) developed these new disease-resistant high-yield sugarcane varieties. Funded by contributions from sugar farmers and millers, Philsurin undertakes research and development activities that benefit the sugar industry.

Consumption

Sugar consumption for CY 2004/05 and beyond is forecast to remain flat due in part to the decision of some food and beverage companies to move their manufacturing operations out of the Philippines to other lower-cost sugar producing countries in the region. According to industry sources, the growing use of an artificial sweetener-sucrose blend by some domestic beverage companies in their soft drinks may also be contributing to the sluggish industrial demand for sugar.

The growing availability of low-priced imported food and beverage products in the market may also be affecting industrial demand for sugar. Industry sources suspect that although total demand for sugar has been stagnant, total per capita consumption of sugar and sugar-containing products may have in fact increased.

According to a study by the University of Asia and the Pacific, the users of sugar are local consumers and the export market. Local consumers consist of household users, which account for 57 percent of domestic consumption; industrial users, 39 percent; and institutions (e.g., restaurants, bakeshops, hospital etc.), 4.6 percent. The export market is mainly the United States, which pays a premium price (i.e., higher than the world market price).

The SRA is confident that a pending bill in Congress mandating the use of ethanol in the production of automobile fuel, given the current high world price of oil, will stimulate the Philippine sugar industry. In fact, rising domestic and world prices for molasses, a raw material in ethanol production, is an indication of the growing demand for ethanol and bio-based fuels.

MOLASSES PRICES, Crop Year 2003-05	
CY 2003/04	**Average Price (Pesos/MT)**
September	2,884.34
October	2,560.05
November	2,483.57
December	2,443.36
January	2,436.29
February	2,317.32
March	2,241.96
April	2,144.18
May	2,192.31
June	2,378.49
July	2,371.42
August	2,480.46
Average	*2,411.15*
CY 2004-05	

September	2,719.66
October	2,777.25
November	2,592.13
December	2,988.68
January	3,127.67
February	3,898.79

Source: Sugar Regulatory Administration

Stocks

Due to increased sugar production in CY 2003/04, the country's starting inventory of raw and refined sugar similarly increased significantly in CY 2004/05. Efforts to sell sugar on the world market and initiatives to scale down current sugar production, however, are expected to bring down stocks of raw and refined sugar to more normal levels.

Trade

The Philippines did not import sugar during CY 2003/04 and is not expected to import any sugar in the current crop year due to adequate domestic production. In the WTO, the Philippines has committed to a Minimum Access Volume (MAV) of 32,023 MT (2005) which is subject to a tariff rate of 50 percent. All importation in excess of 32,023 MT is subject to a tariff rate of 65 percent.

HEADING	ASEAN HARMONIZED TARIFF CODE	DESCRIPTION	2005	
			MFN	CEPT[4]
17.01		Cane or beet sugar and chemically pure sucrose, in solid form		
		- Raw sugar not containing added flavoring or coloring matter		
	1701.11	-- Cane sugar		
		--- In-quota	50	48
		--- Out-of-quota	65	48
	1701.12	-- Beet sugar		
		--- In-quota	50	48
		--- Out-of-quota	50	48
		- Other:		
	1701.91	--Containing added flavoring or coloring matter:		
		--- In-quota	50	5
		--- Out-of-quota	50	5
		--- Other, In-quota	1	0
		--- Other, Out-of-quota	1	0
	1701.99	-- Other:		
		--- Refined sugar		
	1701.99.11	---- White		
		---- In-quota	50	48
		----- Out-of-quota	65	48

[4] ASEAN Common Effective Preferential Tariff

		----- Other, In-quota	1	0
		----- Other, Out-of-quota	1	0
	1701.99.19	---- Other		
		----- In-quota	50	48
		----- Out-of-quota	65	48
		----- Other, In-quota	1	0
		----- Other, Out-of-quota	1	0
	1701.99.90	---- Other		
		----- In-quota	50	48
		----- Out-of-quota	65	48
17.02		Other sugars, including chemically pure lactose, maltose,		
		glucose and fructose in solid form; sugar syrups not		
		containing added flavoring or coloring matter; artificial		
		honey, whether or not mixed with natural honey; caramel		
		- Lactose and lactose syrup:		
	1702.11 00	-- Containing by weight 99% or more lactose, expressed as	1	0
		anhydrous lactose, calculated on the dry matter		
	1702.19 00	-- Other	3	0
	1702.20 00	- Maple sugar and maple syrup	7	0
	1702.30 00	- Glucose and glucose syrup, not containing fructose or	3	0
		Containing in the dry state less than 20% by weight of fructose		
	1702.40 00	- Glucose or glucose syrup, containing in the dry state at least	3	0
		20% but less than 50% by weight of fructose, excluding invert		
		Sugar		
	1702.50 00	- Chemically pure fructose	3	0
	1702.60 00	- Other fructose and fructose syrup, containing in the dry state	7	3
		more than 50% by weight of fructose, excluding invert sugar		
	1702.90 00	- Other, including invert sugar and other sugar and sugar syrup	3	0
		blends containing in the dry state 50% by weight of fructose		
17.03		Molasses resulting from the extraction of refining sugar		
	1703.10 00	- Cane molasses	10	3
	1703.90 00	- Other	7	3
17.04		Sugar confectionery (including white chocolate), not		
		containing cocoa		
	1704.10 00	- Chewing gum, whether or not sugar-coated	15	5
		- Other:		
	1704.90 10	--- White Chocolate	10	5
	1704.90 90	--- Other	15	5

Source: Tariff & Customs Code of the Philippines, January 2004

In an effort to manage the oversupply situation in the country, the local sugar industry is expected to export about 288,000 MT of sugar to the world market this year, primarily to Indonesia, Republic of Korea and Japan to prevent a drop in domestic sugar prices. This volume includes a quota of 142,160 MT to the United States, which is sold at a premium price.

According to the Philippine Sugar Millers Association, its member mills have exported a total volume of 127,000 MT to date since August 2004 to countries other than the United States. However, sugar exports to countries other than the United States, are priced lower at P550/50 kg (approximately $0.09/lb). In the previous crop year, the Philippines shipped 60,000 MT of sugar to the Republic of Korea and Japan.

Marketing

The marketing system in the Philippine sugar industry is already well established. It starts with the delivery of the cane to the mill where, under the present sharing system, the sugarcane planter agrees to allocate a percentage of the output of his sugar with the mill in payment for the processing of the cane.

As soon as the sugar is processed, the planter is issued a warehouse receipt, called a *quedan,* by the mill representing his share of the sugar. After milling, the sugar is stored in the mill warehouse and the warehouse receipt attests to the physical presence of the sugar in the warehouse. Because it is a negotiable instrument, the bearer may withdraw the stocks at any time. There are five different types of *quedans*:

- "A" Sugar allocated for the US market in compliance with US quota requirements;
- "B" Sugar for the domestic market;
- "B-1" Sugar for Food Processors/Exporters;
- "C" Sugar classified as reserve, which may subsequently be converted to either A or B as the need arises;
- "D" Sugar allocated for the world market

(Source: Action Plan for the Philippine Sugar Industry 2000, Philippine Department of Agriculture)

SRA determines the proportion of sugar that is designated for different types of *quedan*. With the present volumes of production, only A & B *quedans* are assigned to producers. The "A" sugar is based on the percentage of production determined by SRA from the volume of the quota allocated to the Philippines by the U.S. government and the estimated volume of production for the crop year. This is less than 10 percent of total domestic output. The rest of the output is subsequently classified as B sugar.

There is a thriving secondary market in the trade for *quedans.* Upon receipt of their *quedans*, planters usually sell them immediately to local traders who in turn sell them to larger traders. The major traders accumulate the *quedans* and subsequently sell them in volume to either wholesalers, distributors, or processors. The processors use the sugar as input for processing while the wholesalers and distributors sell their sugar to major retailers. From the retailers, the sugar eventually reaches consumers through supermarkets, wet markets and sari-sari stores (mom-and-pop stores).

Policy

In December 2004, NFA was instructed by President Gloria Macapagal Arroyo to intervene in the sugar market to stabilize the price and supply of the commodity. Executive Order 386 was issued authorizing the NFA to undertake sugar procurement for CY 2004/05. This is the second consecutive year that the Philippine government has moved to stabilize domestic sugar prices.

Under this program, the NFA has set aside around P100 million for the purchase of excess reserve “C” sugar from planters associations and cooperatives at the price of P680 per 50 kg bag based on the target per mill as provided by the SRA. From November 2004 to January 2005, NFA procured consolidated "C" *quedans* from planters associations/cooperatives. Sugar planters who are not members of any association may also avail of this program by requesting SRA to consolidate their “C” *quedans* with those of other associations. Associations have the option to buy back their sugar from NFA.

In October 2005, SRA issued a new regulation strictly requiring all sugar traders to obtain a shipping permit (SP) for sugar regardless of the quantity, source or type. According to the SRA directive the following requirements must be observed:

1. An SP is required regardless of the quantity of sugar that is due to onetime shipment;

2. If only a machine copy is presented, the SP issued by other SRA stations shall be authenticated upon demand by the Bureau of Customs (BOC), Philippine Coast Guard and Philippine Ports Authority;

3. In case the SP has expired and no shipment was made within the 15-day requisite period, traders must apply for a new one, and;

4. To avoid rush and violation, traders are advised to secure an SP earlier or several days before the scheduled shipment.

In August 2004, President Gloria Macapagal Arroyo ordered the BOC to step up efforts to curb smuggling of sugar. She ordered the BOC to stop the illegal entry of sugar that was allegedly putting downward pressure on domestic sugar prices. She also directed the Tariff Commission to review its classification system for sugar-based food items to ensure that loopholes in the existing directive do not allow circumvention.

PSD Table							
Country	**Philippines**						
Commodity	**Sugar, Centrifugal**			(1000 MT)			
	Revised	2004	Estimate	2005	Forecast	2006	UOM
	Old	New	Old	New	Old	[New]	
Market Year Begin		09/2003		09/2004		09/2005	MM/YYYY
Beginning Stocks	277	277	225	405	175	287	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	2160	2340	2160	2180	0	2100	(1000 MT)
TOTAL Sugar Production	2160	2340	2160	2180	0	2100	(1000 MT)
Raw Imports	0	0	0	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	**2437**	**2617**	**2385**	**2585**	**175**	**2387**	(1000 MT)
Raw Exports	202	202	200	288	0	142	(1000 MT)
Refined Exp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL EXPORTS	202	202	200	288	0	142	(1000 MT)
Human Dom. Consumption	2010	2010	2010	2010	0	2010	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	2010	2010	2010	2010	0	2010	(1000 MT)
Ending Stocks	225	405	175	287	0	235	(1000 MT)
TOTAL DISTRIBUTION	**2437**	**2617**	**2385**	**2585**	**0**	**2387**	(1000 MT)

PSD Table							
Country	Philippines						
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)		
	Revised	2004	Estimate	2005	Forecast	2006	UOM
	Old	New	Old	New	Old	[New]	
Market Year Begin		09/2003		09/2004		09/2005	MM/YYYY
Area Planted	395	395	0	380	0	380	(1000 HA)
Area Harvested	390	390	0	375	0	375	(1000 HA)
Production	26100	27000	0	26000	0	26000	(1000 MT)
TOTAL SUPPLY	**26100**	**27000**	**0**	**26000**	**0**	**26000**	(1000 MT)
Utilization for Sugar	26100	27000	0	26000	0	26000	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	**26100**	**27000**	**0**	**26000**	**0**	**26000**	(1000 MT)